

**REPORT OF THE AUDIT OF THE  
OWEN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT**

**June 30, 2009**

The Auditor of Public Accounts has completed the audit of Owen County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on governmental activities and each major fund.

#### **Financial Condition:**

The fiscal court had total net assets of \$23,835,712 as of June 30, 2009. The fiscal court had unrestricted net assets of \$760,545 in its governmental activities as of June 30, 2009. The fiscal court had total debt principal as of June 30, 2009 of \$4,582,947 with \$4,546,147 due within the next year.

#### **Report Comments:**

- 2009-01 Internal Controls Over Waste Management Receipts Should Be Improved
- 2009-02 The County Has Paid \$111,981 For Penalties And Interest To The IRS And State Of Kentucky
- 2009-03 The County Should Pay Jail Claims Timely
- 2009-04 Purchases Over \$10,000 Should Be Bid
- 2009-05 Cash Transfers and Claims Should Be Approved By Fiscal Court

#### **Deposits:**

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$437,202 as of August 31, 2008

Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Carolyn Keith, Owen County Judge/Executive  
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owen County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owen County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Carolyn Keith, Owen County Judge/Executive  
Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 16, 2010 on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 Internal Controls Over Waste Management Receipts Should Be Improved
- 2009-02 The County Has Paid \$111,981 For Penalties And Interest To The IRS And State Of Kentucky
- 2009-03 The County Should Pay Jail Claims Timely
- 2009-04 Purchases Over \$10,000 Should Be Bid
- 2009-05 Cash Transfers and Claims Should Be Approved By Fiscal Court

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

April 16, 2010



OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

Carolyn Keith	County Judge/Executive
Ray Smith	Magistrate
Bobby Gaines	Magistrate
Jerry Jones	Magistrate
Teresa Davis	Magistrate

**Other Elected Officials:**

Charles Carter	County Attorney
David Bruce	Jailer
Joan Kincaid	County Clerk
Leigh New	Circuit Court Clerk
Zemer Hammond	Sheriff
Jimmy Coyle	Property Valuation Administrator
Lannis Garnett	Coroner

**Appointed Personnel:**

Norma McDonald	County Treasurer
Pam Miller	Deputy Judge Executive

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**OWEN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**OWEN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u><b>Primary Government Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 4,551,142
Total Current Assets	<u>4,551,142</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	615,000
Construction in Progress	165,777
Land Improvements	41,000
Buildings	564,299
Vehicles and Equipment	739,772
Infrastructure Assets	21,741,669
Total Noncurrent Assets	<u>23,867,517</u>
Total Assets	<u>28,418,659</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	46,147
Bond Anticipation Note	4,500,000
Total Current Liabilities	<u>4,546,147</u>
Noncurrent Liabilities:	
Financing Obligations	36,800
Total Noncurrent Liabilities	<u>36,800</u>
Total Liabilities	<u>4,582,947</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	23,075,167
Unrestricted	760,545
Total Net Assets	<u>\$ 23,835,712</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**

**OWEN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,574,852	\$ 14,162	\$ 190,162	\$
Protection to Persons and Property	868,357	505,407	82,240	39,530
General Health and Sanitation	462,031	119,081		
Social Services	43,023			
Recreation and Culture	53,099			
Roads	1,826,200		1,041,558	
Interest On Long-term Debt	128,325			
Capital Projects	3,750			
Total Governmental Activities	<u>\$ 4,959,637</u>	<u>\$ 638,650</u>	<u>\$ 1,313,960</u>	<u>\$ 39,530</u>

**General Revenues:**

Taxes:

    Real Property Taxes

    Personal Property Taxes

    Motor Vehicle Taxes

    Other Taxes

Excess Fees

Interest

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



OWEN COUNTY  
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
 For The Year Ended June 30, 2009  
 (Continued)

**Net (Expenses) Revenues  
 and Changes in Net Assets**  
**Primary Government**

**Governmental  
 Activities**

\$ (1,370,528)  
 (241,180)  
 (342,950)  
 (43,023)  
 (53,099)  
 (784,642)  
 (128,325)  
(3,750)  
(2,967,497)

442,614  
 16,228  
 100,903  
 757,653  
 172,090  
 42,679  
221,534

1,753,701  
(1,213,796)  
25,049,508  
\$ 23,835,712

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**



**OWEN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 562,895	\$ 190,187	\$ 7,463	\$ 3,790,597	\$ 4,551,142
Total Assets	<u>562,895</u>	<u>190,187</u>	<u>7,463</u>	<u>3,790,597</u>	<u>4,551,142</u>
<b>FUND BALANCES</b>					
Reserved for:					
Capital Project Fund				3,790,597	3,790,597
Unreserved:					
General Fund	562,895				562,895
Special Revenue Funds		190,187	7,463		197,650
Total Fund Balances	<u>\$ 562,895</u>	<u>\$ 190,187</u>	<u>\$ 7,463</u>	<u>\$ 3,790,597</u>	<u>\$ 4,551,142</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 4,551,142
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	37,215,764
Accumulated Depreciation	(13,348,247)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(82,947)
Bond Anticipation Notes	(4,500,000)
Net Assets of Governmental Activities	<u>\$ 23,835,712</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**





**OWEN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ 1,317,397	\$	\$	\$	\$ 1,317,397
Excess Fees	172,090				172,090
Intergovernmental	233,492	1,042,744	80,204		1,356,440
Charges for Services	635,556		70		635,626
Miscellaneous	110,238	111,371			221,609
Interest	9,380	2,205		31,094	42,679
Total Revenues	<u>2,478,153</u>	<u>1,156,320</u>	<u>80,274</u>	<u>31,094</u>	<u>3,745,841</u>
<b>EXPENDITURES</b>					
General Government	763,789				763,789
Protection to Persons and Property	695,071		225,404		920,475
General Health and Sanitation	493,586				493,586
Social Services	42,821				42,821
Recreation and Culture	49,673				49,673
Roads		874,711			874,711
Debt Service				128,325	128,325
Capital Projects	3,750			565,777	569,527
Administration	622,525	214,559	15,220		852,304
Total Expenditures	<u>2,671,215</u>	<u>1,089,270</u>	<u>240,624</u>	<u>694,102</u>	<u>4,695,211</u>
Excess (Deficiency) of Revenues					
Expenditures Before Other					
Financing Sources (Uses)	<u>(193,062)</u>	<u>67,050</u>	<u>(160,350)</u>	<u>(663,008)</u>	<u>(949,370)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers From Other Funds	125,000	25,000	167,500		317,500
Transfers To Other Funds	(192,500)	(125,000)			(317,500)
Total Other Financing Sources (Uses)	<u>(67,500)</u>	<u>(100,000)</u>	<u>167,500</u>		
Net Change in Fund Balances	(260,562)	(32,950)	7,150	(663,008)	(949,370)
Fund Balances - Beginning	823,457	223,137	313	4,453,605	5,500,512
Fund Balances - Ending	<u>\$ 562,895</u>	<u>\$ 190,187</u>	<u>\$ 7,463</u>	<u>\$ 3,790,597</u>	<u>\$ 4,551,142</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**OWEN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (949,370)
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	981,403
Depreciation Expense	(1,266,019)
Construction in Progress Placed In Service	(36,661)

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have no Effect on Net Assets.

Financing Obligations - Principal	56,851
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Change in Net Assets of Governmental Activities	<u><u>\$ (1,213,796)</u></u>
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Owen County Public Properties Corporation**

The Board of Directors of the Owen County Public Properties Corporation is the Owen County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to Owen County Fiscal Court. The Fiscal Court has access to the Corporations' resources, and is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County as the Public Properties Corporation Fund.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Owen County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.



**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major. For this fiscal year, there were no non-major funds reported by the fiscal court.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds of debt issuance by the corporation and the construction of a justice center.

**Special Revenue Funds:**

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Capital Projects Fund**

The Public Properties Corporation Fund is a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments (Continued)**

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Machinery and Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize Fiscal Court’s deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured      \$437,202

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 215,000	\$ 400,000	\$	\$ 615,000
Construction In Progress	36,661	165,777	(36,661)	165,777
Total Capital Assets Not Being Depreciated	251,661	565,777	(36,661)	780,777
Capital Assets, Being Depreciated:				
Land Improvements	50,000			50,000
Buildings	612,126	71,002		683,128
Vehicles and Equipment	1,982,008	227,594		2,209,602
Infrastructure	33,375,227	117,030		33,492,257
Total Capital Assets Being Depreciated	36,019,361	415,626		36,434,987
Less Accumulated Depreciation For:				
Land Improvements	(7,200)	(1,800)		(9,000)
Buildings	(108,291)	(10,538)		(118,829)
Vehicles and Equipment	(1,352,722)	(117,108)		(1,469,830)
Infrastructure	(10,614,015)	(1,136,573)		(11,750,588)
Total Accumulated Depreciation	(12,082,228)	(1,266,019)		(13,348,247)
Total Capital Assets, Being Depreciated, Net	23,937,133	(850,393)		23,086,740
Governmental Activities Capital Assets, Net	\$ 24,188,794	\$ (284,616)	\$ (36,661)	\$ 23,867,517

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 18,949
Protection to Persons and Property	52,740
General Health and Sanitation	2,786
Social Services	202
Recreation and Culture	3,426
Roads, Including Depreciation of General Infrastructure Assets	<u>1,187,916</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,266,019</u>

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Sheriff's Vehicles - Financing Obligation**

On November 17, 2005, Owen County Fiscal Court entered into a \$47,586 four-year financing agreement with Ford Motor Credit Company to purchase two vehicles for the Sheriff's office at an interest rate of 6.35%. As of June 30, 2009, this lease was paid in full.

**B. Ambulance - Financing Obligation**

On August 10, 2005, Owen County Fiscal Court entered into a \$100,000 five-year financing agreement with Oshkosh Capital to purchase a new ambulance. An annual payment is due each July 24, with the first payment beginning July 24, 2006. Debt service requirements for the remainder of the agreement are as follows:

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 20,861	\$ 1,754
2011	21,720	895
Totals	<u>\$ 42,581</u>	<u>\$ 2,649</u>

**C. Ambulance - Financing Obligation**

On January 18, 2008, Owen County Fiscal Court entered into a \$75,000 three-year financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to purchase a new ambulance. The agreement calls for monthly payments in varying amounts with the agreement to be paid in full on January 20, 2011. Debt service requirements for the remainder of the agreement are as follows:

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 25,286	\$ 1,187
2011	15,080	299
Totals	<u>\$ 40,366</u>	<u>\$ 1,486</u>

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Public Properties Corporation - Court Facilities Project**

In May 2008, the Owen County Public Properties Corporation entered into an agreement for the issuance of \$4,500,000 in First Mortgage Revenue Bond Anticipation Notes to finance costs during the initial construction phase of a Justice Center. The notes were issued for a two-year period, with semi-annual interest payments due May 1 and November 1 each year, beginning November 1, 2008, and principal due upon maturity at May 1, 2010. Principal on the notes is to be paid from the issuance of first mortgage revenue bonds that will be for the cost of the overall project (estimated in the \$12 million range). Debt service requirements for the Bond Anticipation Notes are as follows:

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 4,500,000	\$ 132,750
Totals	<u>\$ 4,500,000</u>	<u>\$ 132,750</u>

**E. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 139,798	\$	\$ 56,851	\$ 82,947	\$ 46,147
Revenue Anticipation Note	<u>4,500,000</u>			<u>4,500,000</u>	<u>4,500,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 4,639,798</u>	<u>\$ 0</u>	<u>\$ 56,851</u>	<u>\$ 4,582,947</u>	<u>\$ 4,546,147</u>

**Note 5. Interest on Financing Obligations**

Protection to Persons and Property on the Statement of Activities includes \$5,377 in interest on financing obligations.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2009, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**



**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,284,000	\$ 1,284,000	\$ 1,317,397	\$ 33,397
Excess Fees	8,320	172,110	172,090	(20)
Intergovernmental Revenue	1,440,716	1,557,006	233,492	(1,323,514)
Charges for Services	485,000	485,000	635,556	150,556
Miscellaneous	71,400	104,168	110,238	6,070
Interest	5,500	29,769	9,380	(20,389)
Total Revenues	<u>3,294,936</u>	<u>3,632,053</u>	<u>2,478,153</u>	<u>(1,153,900)</u>
<b>EXPENDITURES</b>				
General Government	678,325	877,068	763,789	113,279
Protection to Persons and Property	651,326	758,827	695,071	63,756
General Health and Sanitation	176,872	517,492	493,586	23,906
Social Services	46,916	48,916	42,821	6,095
Recreation and Culture	52,290	52,290	49,673	2,617
Capital Projects	1,350,000	1,075,230	3,750	1,071,480
Administration	576,223	689,246	622,525	66,721
Total Expenditures	<u>3,531,952</u>	<u>4,019,069</u>	<u>2,671,215</u>	<u>1,347,854</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(237,016)</u>	<u>(387,016)</u>	<u>(193,062)</u>	<u>193,954</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	112,000	112,000	125,000	13,000
Transfers To Other Funds	<u>(184,984)</u>	<u>(184,984)</u>	<u>(192,500)</u>	<u>(7,516)</u>
Total Other Financing Sources (Uses)	<u>(72,984)</u>	<u>(72,984)</u>	<u>(67,500)</u>	<u>5,484</u>
Net Changes in Fund Balance	(310,000)	(460,000)	(260,562)	199,438
Fund Balance - Beginning	<u>310,000</u>	<u>460,000</u>	<u>823,457</u>	<u>363,457</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 562,895</u>	<u>\$ 562,895</u>

**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,373,208	\$ 1,373,208	\$ 1,042,744	\$ (330,464)
Miscellaneous	1,000	101,622	111,371	9,749
Interest	1,000	2,000	2,205	205
Total Revenues	<u>1,375,208</u>	<u>1,476,830</u>	<u>1,156,320</u>	<u>(320,510)</u>
<b>EXPENDITURES</b>				
Roads	1,214,811	1,288,019	874,711	413,308
Administration	248,397	276,811	214,559	62,252
Total Expenditures	<u>1,463,208</u>	<u>1,564,830</u>	<u>1,089,270</u>	<u>475,560</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(88,000)</u>	<u>(88,000)</u>	<u>67,050</u>	<u>155,050</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			25,000	25,000
Transfers To Other Funds	<u>(112,000)</u>	<u>(112,000)</u>	<u>(125,000)</u>	<u>(13,000)</u>
Total Other Financing Sources (Uses)	<u>(112,000)</u>	<u>(112,000)</u>	<u>(100,000)</u>	<u>12,000</u>
Net Changes in Fund Balance	(200,000)	(200,000)	(32,950)	167,050
Fund Balance - Beginning	<u>200,000</u>	<u>200,000</u>	<u>223,137</u>	<u>23,137</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 190,187</u>	<u>\$ 190,187</u>

**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 67,000	\$ 67,000	\$ 80,204	\$ 13,204
Charges for Services	200	200	70	(130)
Total Revenues	67,200	67,200	80,274	13,074
<b>EXPENDITURES</b>				
Protection to Persons and Property	230,057	235,602	225,404	10,198
Administration	22,127	16,582	15,220	1,362
Total Expenditures	252,184	252,184	240,624	11,560
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(184,984)	(184,984)	(160,350)	24,634
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	184,984	184,984	167,500	(17,484)
Total Other Financing Sources (Uses)	184,984	184,984	167,500	(17,484)
Net Changes in Fund Balance			7,150	7,150
Fund Balance - Beginning			313	313
Fund Balance - Ending	\$ 0	\$ 0	\$ 7,463	\$ 7,463

**OWEN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carolyn Keith, Owen County Judge/Executive  
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 16, 2010. Owen County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Owen County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Owen County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Owen County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency included in the accompanying comments and recommendations as item 2009-01 to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owen County's financial statements for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards and which are included in the accompanying comments and recommendations as items 2009-02, 2009-03, 2009-04 and 2009-05.

The County's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

April 16, 2010

**OWEN COUNTY  
COMMENTS AND RECOMMENDATIONS  
For Fiscal Year Ended June 30, 2009**



**OWEN COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For Fiscal Year Ended June 30, 2009**

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES

2009-01    Internal Controls Over Waste Management Receipts Should Be Improved

During our audit, we noted a lack of internal controls over waste management receipts. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process. Our review of the cash receipt process for waste management revealed weaknesses in internal controls that should be addressed.

The Owen County waste management transfer station collects money from customers who take their waste to the transfer station. Based on inquiry, three part-time transfer station employees maintain a cash register receipt tape on site at the transfer station to document the amount of funds received each day. Customers are given a receipt only upon their request. The daily collections are given to the waste management coordinator who delivers the monies to the county treasurer for deposit.

While testing these procedures, auditors noted seventeen (17) of the twenty (20) daily cash register receipt tapes tested did not agree to the daily deposits. Of these days, overages in excess of \$6 and shortages as much as \$50 were noted. Also noted, deposits were not being made timely. Auditors found that six (6) of these days were not deposited within three business days, with one instance being two weeks later.

During a surprise cash count, auditors noted cash on hand was in excess of \$100 more than the total collections for the day, indicating all cash collected was not being receipted into the cash register. It was also noted that three change funds are being maintained by each of the part time employees. The Solid Waste Director does not monitor and is not aware of the amount of two of those change funds.

Due to the high volume of cash transactions, we recommend the county implement the following procedures:

- Pre-numbered receipts should be written and maintained for all monies collected at the transfer station.
- Receipts should be batched daily. Total collections for the day should be agreed to total receipts.
- The transfer station should keep a log of total collections for the day.
- Only one change fund should be maintained and the amount should be documented.
- All monies and a copy of the receipts should be given to the treasurer.
- The treasurer should review all receipts to check for missing receipts numbers and recompute receipts and moneys collected each day. On a regular basis, the treasurer and transfer station employee should agree his receipt log to her total deposited for each day to ensure all transfer station collection receipts are accounted for properly.

*County Judge/Executive Response: We are changing the procedures and will comply with the recommendations of numbered receipts and one cash fund.*

**OWEN COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For Fiscal Year Ended June 30, 2009**  
**(Continued)**

STATE LAWS AND REGULATIONS:

2009-02 The County Has Paid \$111,981 For Penalties And Interest To The IRS And State of Kentucky

Per KRS 141.330, each quarter, employers are responsible for submitting the employer and employee portions of federal taxes, social security, and Medicare withheld to the Internal Revenue Service (IRS). In addition, each month, state taxes withheld are submitted to the Revenue Cabinet. Documentation obtained from the IRS and the Revenue Cabinet shows that payments for these withholdings were not submitted timely to these agencies beginning in 2003, and they continued to be late each year thereafter. Auditors obtained payroll records going back to 2002, but were unable to determine why these payments were not being made on time. The failure to submit these payments in a timely manner resulted in the county being assessed \$111,981 in penalties and interest. In addition to submitting withholding payments late, auditors also noted some employee elected deductions were not submitted to the appropriate depository institutions.

During FY 2009, the County contracted with Automatic Data Processing (ADP) to process payroll, file withholding reports, and submit withholding payments on their behalf. Payments from this point forward were submitted timely. We recommend the county ensure withholding taxes be paid timely to avoid using taxpayer money to cover penalties and interest. We also recommend that any other deductions employees may elect to have withheld out of their checks be handled appropriately.

*County Judge/Executive Response: We agree with the audit finding and have been unable to determine why they were late in 2008. They have not been late since personnel changes in 2009.*

2009-03 The County Should Pay Jail Claims Timely

During our audit, we found that jail expenditures were not being paid timely. Eleven (11) of the eighteen (18) jail fund invoices tested were not paid within thirty days of receipt. KRS 165.140(2) states, "unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." We recommend the county comply with KRS 165.140(2) by paying jail claims within thirty days or documenting why an invoice is not paid timely.

*County Judge/Executive Response: In order to comply we must have authorization from the Fiscal Court to pay this bill monthly without pre-authorization. This will be done at our May meeting.*

**OWEN COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For Fiscal Year Ended June 30, 2009**  
**(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2009-4 Purchases Over \$10,000 Should Be Bid

During our audit, we noted the County did not bid all purchases over \$10,000 as required by the Administration Code. KRS 424.260 states when a county makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. However, per KRS 424.260(2), if fiscal court requires advertisement of bids on expenditures of less than \$20,000, the fiscal court requirement shall prevail. Therefore, we recommend the county bid all expenditures above \$10,000.

*County Judge/Executive Response: After checking it appears all bids in question were covered by state contracts, but IKT. This was in 2008.*

2009-5 Cash Transfers and Claims Should Be Approved By Fiscal Court

During our review of cash transfers, we noted that none of the transfers between funds were submitted to fiscal court for approval during July through December of the fiscal year. The Department for Local Government requires that all transfers between funds be approved by Fiscal Court. We also noted that two claims totaling \$300,000 were not presented to fiscal court for approval. KRS 68.275(2) states, "The County Judge Executive shall present all claims to the fiscal court for review prior to payment..." If transfers and claims are not submitted to Fiscal Court for approval, magistrates are not fully informed to make appropriate financial decisions for the County. Therefore, we recommend that all intra-fund transfers and claims be approved by fiscal court as required.

*County Judge/Executive Response: The present staff has submitted all transfers for approval since assuming the responsibility.*

